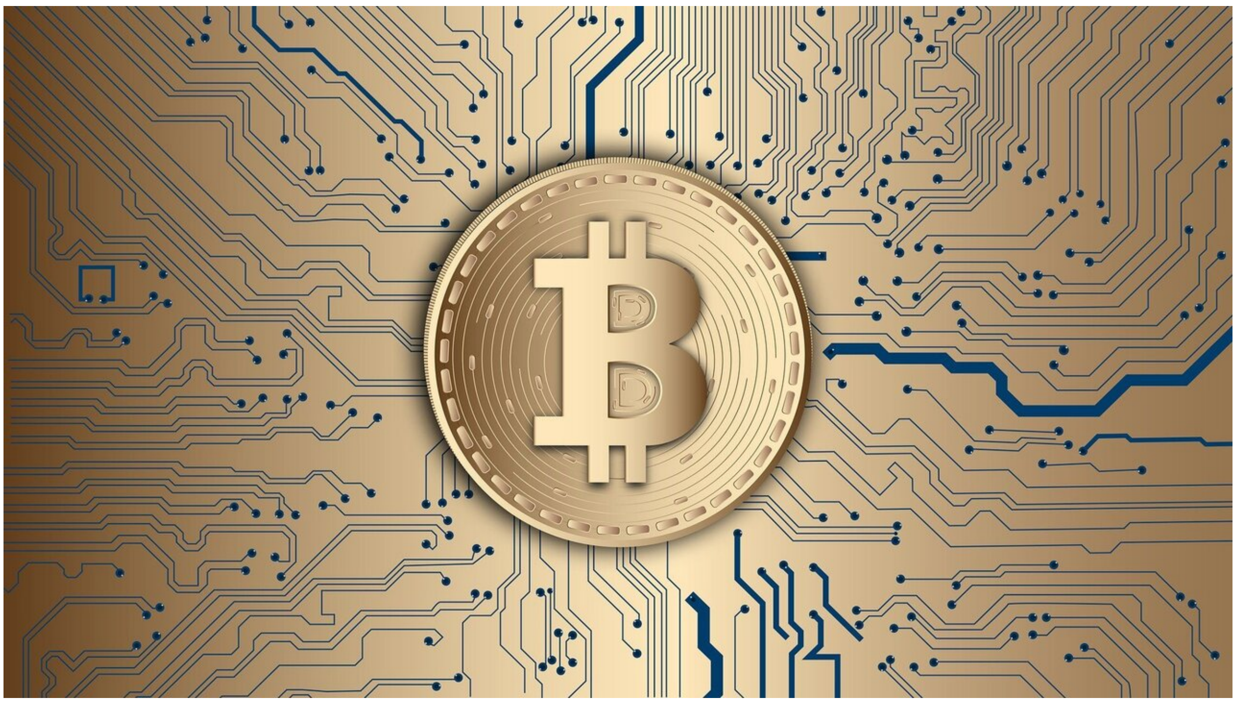
COVID-19 hastens fintech adoption while industry seeks guidance

October 7 2020, by Keith Lewis



Credit: CC0 Public Domain

Unique circumstances created by the COVID-19 pandemic forced more Americans to get comfortable with financial technology, while leaving the industry wondering whether regulators will devise a reliable legal framework to support it.

Plaid Inc., which offers products to power fintech apps, commissioned a survey by The Harris Poll that released findings on Sept. 15 showing that a large majority of Americans relied more than ever on digital applications to manage their money after the coronavirus outbreak - and they're not going back.

Seventy-three percent agreed that managing money with fintech is the "new normal," according to the survey.

"What really stood out for us is that people are seeing this as lasting," Natalie Giannangeli, a Plaid spokeswoman, said in an interview. "They've used fintech because of COVID-19, but they're going to continue to use it after. It's not going away."

That left traditional financial firms seeking ways to keep up, Giannangeli said.

"As a company, we have seen many more financial institutions asking how they can expand their digital road map," she said.

The Harris Poll asked more than 2,000 randomly sampled Americans in July about their engagement with fintech since the pandemic began, broadly defining the term as use of any digital financial transaction that could include depositing a check on a mobile app or sending money through platforms such as PayPal or Venmo.

A large majority, 59 percent, said they relied more on fintech to manage their money, and 48% of previous nonusers warmed up to digital banking, lending and payments because of the coronavirus outbreak.

Framework for growth

Some fintech experts say regulators now have to build a solid framework to foster that growth while protecting customers' data privacy and security.

Kate Goldman, who tracks fintech at the Milken Institute, a nonpartisan think tank, said the market needs clear rules, and regulators' hesitation to issue guidance on fintech could be hampering growth.

Regulators should adopt a pro-technology mindset and work closely with stakeholders to enact robust data privacy and security measures to ensure an acceptable level of safety and soundness in digital financial transactions, Goldman told CQ Roll Call in an interview.

"Clear rules of the road help businesses remain compliant and help consumers feel confident and protected," Goldman said.

It's an old problem that's coming to the forefront with the surge in fintech use.

Ten years after enactment of the Dodd-Frank financial regulatory law, the Consumer Financial Protection Bureau is still trying to implement regulations under Section 1033, which established the right to access one's own financial data. The rule-making is in progress, but much more guidance will be needed, according to fintech experts.

The bureau published a set of principles on consumer financial data in 2017 that outlined more specifics on privacy disclosures, customer consent, security and scope of access, but those guidelines weren't binding.

The CFPB has said it will implement rules this year, but it hasn't yet unveiled a proposal and didn't immediately respond to a request for comment.

John Pitts, head of policy at Plaid, said in an interview that he thinks it's time for U.S. regulators to develop a better legal foundation to support fintech. He also acknowledged that policymakers face difficulties in crafting rules for a quickly evolving industry.

He and others didn't pinpoint specific agencies for changes, as oversight of fintech in the U.S. can fall to any of a half-dozen agencies.

"As a smart regulator, when you see a new market emerging, you need to time that market," Pitts said. "Open finance is a new concept, and one in which multiple governments are working to figure out the correct policy regime to capture it."

Pressing issues

Pitts said the most pressing issues are defining a strong consumer data right and setting the narrow circumstances in which a financial institution can override a consumer's right to share their data.

The CFPB published a request for information in 2016 that sought feedback on how it should design consumer data access and privacy regulations. In February, it hosted a symposium on the topic, including panel discussions with regulators, fintechs, consumer rights groups and banks.

Jackson Mueller, director of policy at Securrency Inc., told CQ Roll Call this kind of close engagement with stakeholders is the key to regulators striking the right balance of adapting to change while still upholding their mission to protect financial markets.

Securrency is an Arlington, Virginia-based startup that aims to automate regulatory compliance.

"Regulators are generally on board with innovation, but they have to try to balance that with their missions," Mueller said. "It's a difficult balancing act that's continuously evolving."

Recognizing the difficulty regulators face, Mueller said it is imperative for the industry to have consistent guidance it can rely on. He pointed to the breadth that the term "fintech" can encompass - digital lending, virtual payments and mobile banking - and noted that each category may require different policy solutions.

The Harris Poll survey defined fintech broadly, but its findings made clear that technological adoption surged because of the convenience of digital transactions when in-person contact is highly discouraged. Many small businesses also relied on technology when the Treasury Department and Small Business Administration approved fintech lenders to participate alongside banks in extending pandemic relief loans to businesses.

"Some of the fintech lenders were in the top five for origination of loans in that program," Pitts said.

With more individuals and small businesses recognizing the benefits of fintech firsthand, Pitts said regulators are starting to accept that fintech is becoming central to the economic system. Still, he cautioned regulators to employ an egalitarian approach.

"Even though this is the right time to provide some additional regulatory certainty, you want it to be rights-based, but not prescriptive, and technologically neutral," Pitts said.

Policymakers should identify the scope of consumers' rights as well as any exceptions that are needed to protect banks and consumers from fraud, Pitts said. However, he also cautioned that those security concerns shouldn't interfere with consumer choice and that regulators shouldn't try to impose top-down solutions that favor certain technologies over others.

"The pandemic really showed people what fintech can do for their lives, not only for banking, but also for investments and other financial tools," said the Milken Institute's Goldman. "I don't anticipate a reversal back to how things were before the pandemic."

Citation: COVID-19 hastens fintech adoption while industry seeks guidance (2020, October 7) retrieved 26 April 2024 from
https://techxplore.com/news/2020-10-covid-hastens-fintech-industry-guidance.html